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STATE FOR NEA/ELA, NEA/RA  
USAID FOR ANE/MEA MCCLOUD AND RILEY  
TREASURY FOR MATHIASON AND HIRSON  
COMMERCE FOR 4520/ITA/ANESA/OBERG

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [EG](#)

SUBJECT: NEW U.S.-EGYPT ESF CASH TRANSFER AGREEMENT: U.S.  
Assistance Will Never Be the Same

¶1. (U) Summary: The U.S. and Egypt recently signed a new Grant Agreement totaling \$400 million in ESF funds over the next three years. The funds will be disbursed directly to the GOE upon completion of mutually-agreed reforms in the areas of education, health and private sector development. Signing of the agreement is a major step in transforming the way U.S. economic assistance is delivered to Egypt. With the elimination of the Commodity Import Program (CIP) and phasing out of project assistance over the next few years, cash transfer will eventually be the primary means of delivering assistance. This will bring one of the U.S.'s largest bilateral ESF programs more in line with international trends in assistance delivery. USAID Mission staff will also be reduced as projects are phased out over the next few years.

¶2. (U) On September 30, USAID Acting Director John Groarke and Minister of International Cooperation Fayza Aboul Naga signed a new cash transfer Grant Agreement for the years 2007-2010. The agreement ties a total of \$400 million in ESF over the next three years to the GOE's accomplishment of human and economic development policy reforms. Using the successful Financial Sector MOU as a model, the U.S. and Egypt agreed on a new Human and Economic Development MOU focused on three priority areas: health, education and private sector development.

¶3. (U) Signing of the new grant agreement is the culmination of a two-year negotiation process aimed at reaching mutually agreeable policy reform goals. By extending the Financial Sector MOU model into the area of human development, the new grant agreement is a major step in the transformation of the way U.S. economic assistance is delivered to Egypt. Over the next several years, the CIP program will be eliminated, and we envisage an end to most ongoing USAID projects, with the exception of programs under the D&G and education earmarks. Once these projects/programs are phased out, most U.S. economic assistance will be delivered in the form of cash transfers to support accomplishment of mutually-agreed GOE policy goals.

¶4. (SBU) Though it remains a "lower middle income" country in most international rankings, Egypt's level of development, relative to other recipients of USAID project assistance, combined with its current 6-7% economic growth, drastically reduces the need for project assistance. At the same time, over the past thirty years, the GOE has developed considerable technical capacity to carry out its own programs and projects. The new cash transfer program will more accurately reflect the political nature of U.S. economic assistance to Egypt. Moreover, the cash transfer modality is more in keeping with the shift in international development assistance to financing of national government's development projects, as the Millennium Challenge Corporation does.

¶5. (SBU) Though ongoing USAID projects will require continued

management by American and LES staff, once the projects wind down, USAID Mission staffing will be significantly reduced. The Mission plans to abolish some U.S. Direct Hire positions and will not renew the contracts of some LES staff members on PSCs. The Mission's local employees have been advised of the reduction in staffing and the Embassy will look at the possibility of hiring some former USAID local staff to fill other LES positions at post.

16. (U) Comment: Post is considering public outreach options to provide background on the changes in the U.S. economic assistance program. We believe that assistance delivered in the form of support to GOE development programs will be better received by the Egyptian public, and GOE officials themselves.  
JONES